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TREASURY FOR IMFP -- SOBEL/CUSHMAN  
STATE PASS CEA FOR BLOCK  
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MANILA FOR ADB USED  
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SUBJECT: GREATER U.S. EX-IM BANK ROLE URGED BY SHANGHAI BANKERS

11. (SBU) Summary: Foreign bank executives in Shanghai recommended that the Export-Import Bank of the United States (Ex-Im) increase its operations in China by working with second-tier banks to finance imports by Chinese small- and medium-size enterprises (SMEs). They urged Ex-Im to establish an office in China as the best way to track policy trends that will affect U.S.-China trade. Several of the bankers mentioned that alternative energy is a sector that would be most appropriate for Ex-Im financed imports from the United States. End Summary.

12. (SBU) Ex-Im Bank Senior Vice President and Chief of Staff Kevin Varney met October 12 with representatives of six locally incorporated subsidiaries of multinational banks -- BNP Paribas, Citi, Deutsche Bank, HSBC, J.P. Morgan, and PNC. The banks are "guaranteed lenders" that have been delegated authority to provide Ex-Im Bank-guaranteed working capital loans to U.S. exporters without prior Ex-Im approval.

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Financing for Chinese SMEs Falls Short  
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13. (SBU) The bank executives agreed that Chinese SMEs are in the greatest need of Ex-Im financing. One banker pointed out that financing needs in China are currently greatest in two areas: large infrastructure projects and private enterprises. However, private enterprises -- which are mainly SMEs -- are not being served by the major Chinese banks.

14. (SBU) The best partners for international cooperation on SME lending would be second-tier banks, agreed the bankers. Second-tier banks would be better able to share market data and trends relating to SMEs, since the five major Chinese

state-owned commercial banks largely ignore the SME market segment. One executive mentioned two second-tier banks in this context: China Merchants (a joint-stock bank), and China Minsheng (a pseudo-private bank). In this way, said one of the bankers, Ex-Im could play the role of a broker between U.S. SMEs and Chinese importers and their local banks.

¶5. (SBU) Note: Other large second-tier banks include the joint-stock banks China CITIC, Shanghai Pudong Development Bank, and Industrial Bank. Altogether, second-tier banks account for around 14 percent of banking system assets. The "Big Five" banks -- Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China, and Bank of Communications -- account for around 52 percent of banking system assets. End note.

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Local Ex-Im Presence Needed  
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¶6. (SBU) The bank executives repeatedly urged the Ex-Im Bank to establish a presence in China, saying that Ex-Im needs to be closer to the trade transactions happening here in order to be of greatest service. One pointed out that neither China nor the United States have export credit agency offices in each other's countries, which is counterintuitive because they are major trading partners. Canada's export credit agency has an office in China, mentioned one of the bankers.

¶7. (SBU) An Ex-Im Bank presence in China is especially necessary because of the sometimes-abrupt shifts in Chinese financial policy, noted a banker whose Chinese headquarters has

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been locally incorporated in Beijing. A clear example is the about-face of the Chinese government from a restrictive monetary policy in 2008 to a loose monetary policy in 2009. The inconsistency of policy can offer profit-making opportunities for financiers, the executive said, but "You have to know when to enter the market."

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Alternative Energy Could Be a Focus  
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¶8. (SBU) Several of the contacts agreed that Chinese alternative energy manufacturers would be a good place to boost Ex-Im financing of Chinese imports of U.S. technology. One said many alternative energy companies are small, private enterprises that banks do not serve. Others said that the Chinese population is beginning to become more environmentally aware, and non-governmental organizations (NGOs) are beginning to change China's policies -- "Do not underestimate the impact that NGOs have on the Chinese government," said one banker. Another banker offered that sales of alternative energy vehicles is "a great untold story" in China, pointing out the predominance of electric battery motorscooters on Shanghai roads.

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Sinasure Reducing Cooperation with Foreign Banks  
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¶9. (SBU) One political risk for foreign-affiliated financial institutions in the China market is that the government sometimes seeks to restrict their role. As an example, one banker said that Sinasure, China's export credit insurance agency, has trimmed back the role that foreign banks are permitted to play in financing China's exports. Under the newly introduced 421 Program, Sinasure is allowing foreign banks to provide a maximum of 30 percent of the financing for any one deal. Previously, there was no limit on the amount of financing. (Note: According to Chinese press, the 421 Program refers to a new US\$42.1 billion export credit guarantee fund that several Chinese ministries and Sinasure collaborated on establishing as of May 2009. The program is targeted at exporting whole electrical machinery production lines to

developing countries, and is billed by some as the single most effective export boosting program introduced by China this year.  
End note.)

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Chinese Still Sore Over Unocal and 3COMM Deals  
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¶10. (SBU) Ex-Im's operations in China may be affected by a lingering backlash among Chinese policymakers towards the United States following the failure of China National Overseas Oil Corporation (CNOOC) to purchase Unocal Oil Company in 2005 and of the telecommunications firm Huawei to purchase a stake in 3Com in 2007. One banker noted that, while not all Chinese attempts to invest in the United States are rebuffed, the Huawei and CNOOC deals had a disproportionate impact because they got the attention of China's relatively small business community. Chinese businesspeople need to see a strong counterexample that shows the United States is open to investment before embracing new cooperation with Ex-Im Bank and other U.S. government agencies, said the contact.

¶11. (SBU) Ex-Im Bank has cleared on this cable.  
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